HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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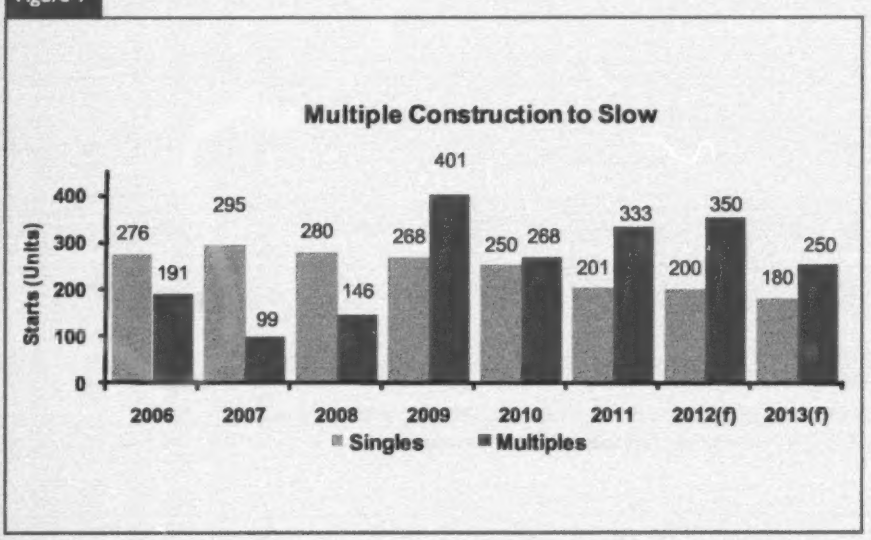
Most Housing Indicators to Decline Slightly

Charlottetown's housing market has experienced significant growth over the past decade. The forecast for 2012 indicates a year of slight increases followed by modest declines in most aspects of the housing sector during 2013. The growth during the past decade has been driven by historically low interest rates, strong employment growth and positive migration.

During the first three quarters of 2012, total employment in the Capital region has been flat when compared to the same period in 2011. Over a quarter of the employment in the Capital region is found in the retail trade and public administration sectors, which have reported declines

Figure 1



Source: CMHC

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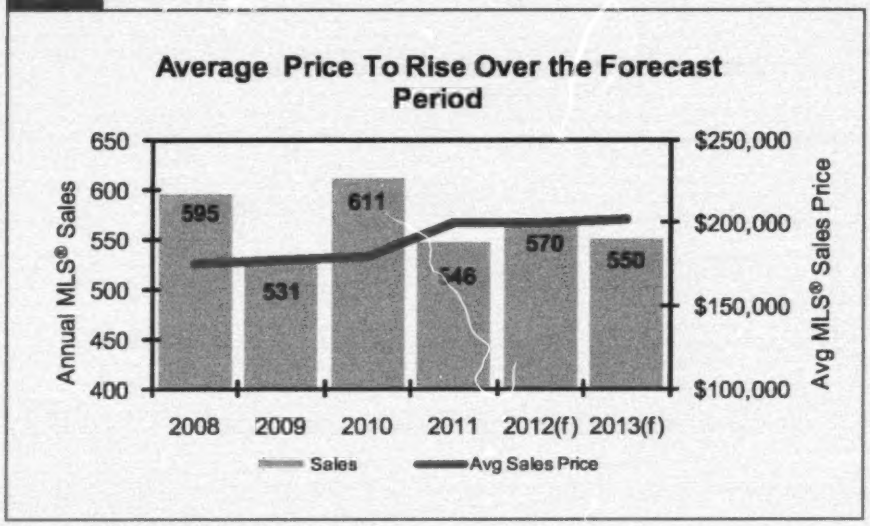
in 2012. At almost eight per cent, public administration recorded the largest decline during the year for all sectors. This is the result of reductions to staff at both the federal and provincial levels. With continued fiscal restraint in effect, a further decline in public sector employment is anticipated in 2013. Construction sector employment continued to rise as residential, commercial, and infrastructure construction have boosted employment in the capital region to new highs. Despite the flat employment levels in 2012, the capital region remains attractive for job seekers compared to other parts of the province. The job market has lead to the continued trend of urbanization, as Islanders continue to move to the capital region from more rural parts of the province.

The unemployment rate grew to slightly over nine per cent during the first three quarters of 2012 after declining in the previous two years. Growth in employment during 2012 in the Charlottetown area did not keep pace with labour force growth, leading to a higher unemployment rate. It is expected that the 2012 full year unemployment rate will remain near the nine per cent level.

Positive net-migration is one of the key factors that have contributed to the strong housing market over the past ten years. A key reason for this substantial increase in international migration has been the Provincial Nominee Program. Beginning in 2007, a new upward trend in international migration started, which brought more than 6,000 new residents to the Island. The local housing market has benefitted from this initiative as many of these households relocated to the capital region, and as such required housing within all tenure types. However, it is important to note that this program is coming to an end next year and as such international migration is expected to decline significantly in 2013.

Figure 2



Source: PEI Real Estate Board, CMHC Forecast
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While the aforementioned data on immigration is positive, the figures represent net gains for the province as a whole. It is important to note that the Capital region has consistently outperformed the province in attracting immigrants. For the last census period ending in 2011, the Charlottetown CA, which encompasses the entire urban area around the city, recorded a population growth of 5,162 people or 8.7 per cent. While there was some natural population growth during this period, the majority of the increase was due to in-migration. For the Charlottetown area, it had been typical that about 70 per cent of the people moving to the Capital region came from elsewhere in the province, while the remainder was from other regions of the country. This ratio had remained fairly constant since the early 1990's, but since 2007 it changed due to the combined effect of more people moving to the west and the recent influx of international immigrants.

The expected slowdown in construction work in 2013 could result in additional inter-provincial outmigration. Opportunities in other parts of the country will determine the extent of this potential movement, which would act as a counterbalance against increased housing demand from international migration.

Mortgage Rates

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted

to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

MLS® Sales to Remain Flat

The ten-year average of residential MLS® sales in the Charlottetown area is 570 units and over the past four years the annual tally has been remarkably close to that figure. The Charlottetown region has proven to be an extremely stable market, however, it is not immune to the economic and demographic shifts which are occurring and this will impact the resale market.

Demand for resale homes is expected to remain flat over the forecast period. Employment growth will be flat to slightly negative during the same period, as work in public administration and construction are both expected to decline in 2012, and as such limit overall employment growth. MLS® sales are forecast to reach 570 units in 2012 and then decline in 2013 to 550 units.

The pace of household growth will decline as international migration slows and inter-provincial out-migration increases. The overall impact will be a reduction in demand for resale homes compared to the previous two years.

The average sale price will see growth limited to the rate of inflation. Slightly reduced demand along with fewer new homes on the market will be the catalyst for a decrease. Unlike recent history, the past few years have seen an increase in new homes placed on the market for sale. Builders have had the confidence to put new homes on the market rather than rely on the pre-sold segment. A decline in construction of houses which are not pre-sold will reduce the impact these higher priced homes have on the average sale price. Average sale prices are expected to reach approximately $200,000 by the end of 2012, before increasing slightly to $202,000 by the end of 2013.

Apartment Construction to Decline

Total new home construction in the Charlottetown CA will increase by three per cent this year as rental unit starts remain at historically high levels. The forecast for this year will see multiple unit starts rise to 350 units compared to 333 units started last year. The level of multiple unit construction has been well above the ten-year average of 208 units in recent years. The level of construction in 2012 will be recorded as one of the highest in recent history. The expectation for 2013 is a decline to 250 units, which still remains above the overall average level experienced over the past decade.

Single-detached home construction will remain very close to levels seen in 2011. This is expected to continue so that by year-end there will be 200 new houses in 2012 compared to 201 last year. This trend toward moderate yearly declines will continue for 2013 with 180 new single-detached homes being built.

Although the transition to larger, more elaborate homes will continue, average new home prices will not advance as much as in recent years. As mentioned above, until the supply of new homes on the market is sold, the practice of building expensive, unsold houses will decline. Also, stable demand will keep average prices rising more slowly than in the past.

Vacancy Rates Expected to Rise

Vacancy rates started to rise last year as an increase in new units began to impact the market, with the rate advancing to 3.3 per cent in October of 2011. This trend will continue as the vast majority of new rental units built last year begin to impact the vacancy rate this year. The increased level of construction and new supply will lead to vacancy rates increasing to an expected five per cent this year and five per cent in 2013.

Average rents will increase as a result of the 3.2 and 2.0 per cent allowable rent increase for heat and unheated units, respectively, approved by the Island Regulatory and Appeals Commission for 2012. However, more significant increases are expected due to the large number of new units entering the market at higher prices. Two-bedroom average rents are expected to be $790 this year and $820 in 2013.

Forecast Summary
Charlottetown CA
Fall 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	531	611	546	570	4.4	550	-3.5
MLS® New Listings	975	786	875	850	-2.9	800	-5.9
MLS® Average Price ($)	177,237	179,813	199,580	200,000	0.2	202,000	1.0
New Home Market							
Starts:							
Single-Detached	268	250	201	200	-0.5	180	-10.0
Multiples	401	268	333	350	5.1	250	-28.6
Starts - Total	669	518	534	550	3.0	430	-21.8
Average Price ($):							
Single-Detached	242,674	235,703	239,840	250,000	4.2	255,000	2.0
Median Price ($):							
Single-Detached	210,000	220,000	240,000	247,200	3.0	254,628	3.0
New Housing Price Index (% chg.)	0.9	-1.6	1.8	1.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	3.4	2.3	3.3	5.0	1.7	5.0	0.0
Two-bedroom Average Rent (October) ($)	701	731	761	790	-	820	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level (,000)	32,350	33,925	34,625	34,600	-0.1	34,900	0.9
Employment Growth (%)	0.0	4.9	2.1	1.9	-	0.9	-
Unemployment Rate (%)	8.7	7.9	8.3	8.0	-	8.2	-
Net Migration (P.E.I.)	1,650	2,531	1,169	900	-23.0	700	-22.2

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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